

Service Date: December 5, 1978

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application)	
of the CITY OF SHELBY for authority)	DOCKET NO. 6594
to increase rates for water service.)	ORDER NO. 4468
_____)	

APPEARANCES

FOR THE APPLICANT:

BRUCE W. MOERER, Attorney at Law, 153 Main Street, Shelby, Montana 59474

FOR THE PROTESTANTS:

GEOFFREY L. BRAZIER, Attorney at Law, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59601

ERV GYSLER, Box 323, Shelby, Montana 59474

FOR THE COMMISSION:

EILEEN E. SHORE, Attorney at Law
FRANK E. BUCKLEY, Administrator, Utility Division
JAMES P. DWYER, Rate Analyst

BEFORE:

GORDON E. BOLLINGER, Chairman
P. J. GILFEATHER, Commissioner
THOMAS J. SCHNEIDER, Commissioner

APPLICATIONS AND PROCEEDINGS

(1). On July 20, 1978 the City of Shelby (Applicant) filed a petition with the Montana Public Service Commission (PSC) requesting that the PSC authorize Applicant to increase its

water rates for additional revenue for retirement of Revenue Bonds, operation and maintenance expenses and to defray increased costs of operation.

(2). On September 13, 1978, a Notice of Public Hearing in Docket No. 6594 was published.

(3). A public hearing on this matter was conducted in the Hospitality Room of the Marias River Electric Co-op Building in Shelby, Montana on Thursday, October 12, 1978.

(4). The hearing was conducted under the Commission's procedural rules for contested cases, as contained in the Administrative Rules of Montana.

(5). The Applicant presented four (4) witnesses: T. H. (Tom) Thomas, President, Thomas, Dean and Hoskins, Inc., Engineering Consultants; the Honorable Harry Simons, Mayor, City of Shelby; Richard Vorkees, Superintendent of the Shelby Water Department; and Gene Hufford, Fiscal Agent of D. A. Davidson.

(6). The protestant, Montana Consumer Counsel, presented Exhibits A-F and assisted intervenors, Mr. Erv Gysler and other in their testimony and cross-examination.

The Commission having taken evidence and being fully advised in the premises, makes the following Findings of Fact, Conclusions of Law and Order:

FINDINGS OF FACT

Test Year

1. Tom Thomas, President, Thomas Dean & Hoskins sponsored Exhibit #1 entitled "Engineering Report on Proposed Water Improvements (TDHREP) for the City of Shelby, Montana". The test year calculation proposed in this exhibit is as follows:

Annual Payment for Bond Issue	\$122,985
25% Debt Coverage Requirement	<u>\$ 30,746</u>
Total Bond Requirements	\$153,731
Projected Operating Costs	<u>+\$142,800</u>
Total Annual Cost	\$296,531

The Commission finds, and will detail in further findings that the test year as follows is more appropriate in this matter:

Annual Payment for Bond Issue	\$122,985
25% Debt Coverage Requirement	<u>\$ 30,746</u>
Total Bond Requirement	\$153,731
Projected Operating Costs	<u>\$103,157</u>
Total Annual Cost	\$256,888

Expenses

2. Witness Thomas projected expenses for FY83 in TDHREP, page III-5 and III-6, the methodology used by witness Thomas was to reduce the June 30, 1977 expense figure of \$100,923 by \$10,000. The remaining \$90,000 was then compounded by an annual inflation figure of 8% to produce an amount of \$142,800.

The Commission finds that the figure \$103,157 is a more appropriate expense figure in this instance. The calculation is:

FY 1978	\$123,157
Less Bond figure	- \$ 20,000
	<u>\$103,157</u>

The proposed capital expansion project will reduce main line maintenance expense. Applicant and MCC both presented calculations with respect to this reduction. MCC proposed a reduction of \$20,000 and Applicant, as previously mentioned, \$10,000.

In view of the latitude allowed a municipal utility in the 25% bond debt service coverage factor the Commission finds that the \$20,000 figure as proposed by MCC is more appropriate in this matter.

Debt Service

3. Gene Hufford, fiscal agent for the City of Shelby, employed by D. A. Davidson, testified with respect to bond ordinances and usual methods for municipal bond debt coverage. Witness Thomas in TDHREP specified that the total project cost would be \$1.4 million dollars plus \$100,000 to liquidate the current bond obligations. To amortize a \$1.5 million bond issue over 25 years at an interest rate of 65% would require an annual payment of principal and interest of \$122,985. To finance a bond issue at a reasonable interest rate the revenue must be sufficient to make the annual payment on the bond issue, pay all operating expenses and provide for a debt

service factor of 125 percent of the annual payment on the bond issue. The total annual cost of the bond issue would then be \$153,731.

The Commission finds that this calculation is appropriate in this proceedings.

Revenues

4. In order to meet the expense and debt service figures revenues would need to be raised the following amount:

Expense	\$103,157
Debt Service	<u>\$153,731</u>
	\$256,888
Less Current Revenues	<u>\$172,174</u>
	\$ 84,714

Current Reserves

5. The City of Shelby Water Department has current reserves in excess of the required one year debt service payment. The Commission finds that these reserves should be used to establish the one year requirement of the bond ordinance.

Sewer Rates

6. Applicant's sewer rates as filed with this Commission are calculated as 25 percent of the monthly water bill.

The Commission finds that this proceeding did not include a sewer rate increase. Therefore the Applicant must reduce the percentile calculation in order to maintain sewer revenues at their present level.

CONCLUSIONS OF LAW

1. Applicant's water rates are subject to the jurisdiction of this Commission under RCM 1947, Section 70-101, et seq.

2. Applicant's sewer rates must be approved by this Commission as required by Supreme Court Order in Cause No. 14145.

3. Notice of a proposed sewer rate increase was not given in conjunction with this increase. Absent notice and full development of the need for a sewer increase on the record, the Commission has no power to grant the City authority for a sewer rate increase in this proceeding.

4. The increased revenues approved herein are necessary to the continued operation of the Shelby water system. The rate levels and rate structure approved herein are reasonable and just.

ORDER

1. Applicant is ordered to file revised rate schedules reflecting a 49.0 percent increase in the minimum charge and charges for each block of consumption.

2. Applicant shall revise its sewer charge in such a way as to hold sewer revenues constant at the present level and file such revision with this Commission.

3. All motions and objections not previously ruled upon in the hearing are denied.

DONE IN OPEN SESSION by a 3 - 0 vote in Helena, Montana, on December 4, 1978.

This order is effective upon sale of the bonds and filing of revised rate schedules.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Gordon E. Bollinger, Chairman

Thomas J. Schneider, Commissioner

P. J. Gilfeather, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTICE: You are entitled to judicial review of the final decision in this matter. If no Motion For Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this Order. If a Motion For Reconsideration is filed, a Commission Order is final for purpose of appeal upon the entry of a ruling on the filing of that motion. cf. The Montana Administrative Procedure Act, esp. Sec. 82-4216, RCM 1947; and Commission Rules of Practice and Procedure, esp 38-2.2(64)-P2750, ARM.